

**LEGISLATIVE SERVICES AGENCY
OFFICE OF FISCAL AND MANAGEMENT ANALYSIS**

301 State House
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FISCAL IMPACT STATEMENT

LS 6297

BILL NUMBER: HB 1191

DATE PREPARED: Dec 3, 2000

BILL AMENDED:

SUBJECT: Prescription Drug Coverage.

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FUNDS AFFECTED: X GENERAL
DEDICATED
FEDERAL

IMPACT: State

Summary of Legislation: This bill requires the state to offer coverage for prescription drugs to retired state employees who are not wholly covered for prescription drugs under another plan of assistance or insurance. The bill also requires a participating retired state employee to pay an amount equal to the amount paid by active state employees for prescription drug coverage.

Effective Date: July 1, 2001.

Explanation of State Expenditures: If only single coverage for prescription drugs is made available to state retirees, the total cost of the program is estimated to be approximately \$16.81 M in FY 2002 and \$17.95 M in FY 2003. The state share of the program cost under this scenario is estimated to be approximately \$16.48 M in FY 2002 and \$17.59 M in FY 2003. If, however, both single and family coverage is made available to retirees, the total cost of the program is estimated to be approximately \$34.04 M in FY 2002 and \$36.35 M in FY 2003. The state share of the program cost under this scenario is estimated to be approximately \$33.37 M in FY 2002 and \$35.61 M in FY 2003.

Background: While the bill requires the state to offer prescription drug insurance coverage to retired state employees, it does not specify whether the coverage is limited to retirees only or is to be extended to family members. Therefore, two estimates were developed, one assuming that only single coverage is made available to retirees and one assuming that both single and family coverage is made available to retirees.

There are currently about 11,432 retirees from state employment. Both estimates assume that the retiree count will remain constant through the end of FY 2003 and that all retirees will obtain the prescription drug insurance coverage. Both estimates also assume that the cost of the retiree coverage is separate from that of the current state employee health plans, thus, precluding a subsidy from active employees to retired employees. Survey research by the U.S. Census Bureau suggests that approximately 54.7% of state retirees are married with their spouse present. As a result, the estimate of the cost of offering both single and family

coverage assumes that 54.7% of the state retirees (6,253 retirees) would obtain family coverage for prescription drugs with the balance (5,179 retirees) obtaining single coverage.

During CY 2000, prescription drug expenditures by active state employees covered under the traditional insurance plan were projected to be \$386.36 per employee with single coverage and \$1,110.20 per employee with family coverage. The U.S. Agency for Healthcare Research and Quality (AHRQ) estimates that per capita prescription drug expenditures for individuals aged 65 and older are about 3.34 times greater than the per capita prescription drug expenditures for individuals younger than 65. The AHRQ also projects an annual average percentage change of 6.76% in per capita prescription drug expenditures by individuals aged 65 and older between 1996 and 2005. The per capita amounts for state retirees in FY 2002 and FY 2003 are estimated by adjusting the current expenditure amounts for active employees by these inflation factors.

If only single coverage is made available to state retirees, total program costs are estimated to be approximately \$16.81 M in FY 2002 and \$17.95 M in FY 2003. If both single and family coverage is made available, total program costs are estimated to be approximately \$34.04 M in FY 2002 (\$7.62 M for single coverage and \$26.43 M for family coverage) and \$36.35 M in FY 2003 (\$8.13 M for single coverage and \$28.21 M for family coverage).

State retirees would have to contribute the same dollar amount for the prescription drug insurance coverage as that contributed by active state employees for such coverage. If only single coverage is made available, the retiree contribution is estimated to be approximately \$335,072 in FY 2002 and \$361,937 in FY 2003. If both single and family coverage is made available, the retiree contribution is estimated to be approximately \$678,424 in FY 2002 (\$151,796 for single coverage and \$526,628 for family coverage) and \$732,865 in FY 2003 (\$163,967 for single coverage and \$568,899 for family coverage). Each active state employee would be expected to pay an amount equal to 6.5% of the per capita prescription drug expenditure. The AHRQ projects an annual average percentage change of 8.03% in per capita prescription drug expenditures by individuals younger than age 65 between 1996 and 2005. The per capita amounts for active employees in FY 2002 and FY 2003 are estimated by adjusting the current per capita amounts by this inflation factor.

Given the retiree contributions, the state share of the program cost is estimated to be approximately \$16.48 M in FY 2002 and \$17.59 M in FY 2003, if only single coverage is made available to retirees. If both single and family coverage is made available to state retirees, the state share of the program cost is estimated to be approximately \$33.37 M in FY 2002 and \$35.61 M in FY 2003.

Explanation of State Revenues:

Explanation of Local Expenditures:

Explanation of Local Revenues:

State Agencies Affected: All.

Local Agencies Affected:

Information Sources: Keith Beesley, State Department of Personnel, 232-3062. U. S. Agency for Health Care Policy and Research, Center for Cost and Financing Studies, National Medical Expenditure Survey, August 1998. U. S. Census Bureau, 65+ in the United States, P23-190 Current Population Reports: Special Studies, April 1996.